



0000207256

BEFORE THE ARIZONA CORPORATION COMMISSION

LEA MÁRQUEZ PETERSON

Chairwoman

SANDRA D. KENNEDY

Commissioner

Arizona Corporation Commission

DOCKETED

JUSTIN OLSON

Commissioner

JUL 27 2022

ANNA TOVAR

Commissioner

JIM O'CONNOR

Commissioner

DOCKETED BY

*m*

IN THE MATTER OF THE APPLICATION)  
OF UNS GAS, INC. FOR APPROVAL OF A  
TEMPORARY PURCHASED GAS  
ADJUSTOR SURCHARGE

DOCKET NO. G-04204A-22-0116

DECISION NO. 78639

ORDER

Open Meeting  
July 12 and 13, 2022  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

**Background**

1. On May 13, 2022, UNS Gas, Inc. ("UNS Gas" or "Company") filed an application with the Arizona Corporation Commission ("Commission") requesting approval of a temporary surcharge to its Purchased Gas Adjustor ("PGA") rate in order to reduce the current under-recovered PGA bank balance related to the unprecedented changes in the natural gas commodity pricing that has occurred over the last 24-month period.

2. UNS Gas delivers natural gas to more than 165,000 customers in Santa Cruz, Mohave, Yavapai, Coconino and Navajo counties through 4,750 miles of distribution pipelines. All natural gas provided to customers is procured from wholesale providers at market prices that are subject to significant volatility. To help insulate customers from this volatility, UNS Gas employs a 36-month rolling procurement process to hedge up to 70 percent of its weather normalized forecasted gas demand for the March through November time period and 80 percent for the December through February time period. The Commission-approved UNS Gas PGA (UNS Gas'

Rider RR-1 Purchased Gas Adjustment) allows recovery of gas and transportation costs incurred to provide service to retail customers, as well as the cost of contracts used for hedging system gas costs.

3. In Decision No. 70011 (November 27, 2007), the Commission approved an updated structure for UNS Gas' PGA, which includes: (i) a 12-month rolling average PGA rate, adjusted monthly, (ii) a band for PGA rate adjustments of +/- \$0.15 per therm on a month-to-month basis, and (iii) a trigger for a refund when the PGA bank balance reflects an over-collection of \$10 million or more. The PGA also provides the Company with the opportunity to request a surcharge if the bank balance reflects an under-collection<sup>1</sup>.

4. In Decision No. 75818 (November 22, 2016), the following additional requirements regarding the PGA bank balance were adopted:

“...However, we will require UNS Gas to provide written notice to Staff within 30 days after the PGA bank balance becomes over-collected by \$5 million and to provide the following information with that notice: (i) current market price of natural gas, (ii) forecast of natural gas prices and related estimate of whether the bank balance will be over-collected by \$10 million within the following 12 month period, and (iii) whether UNS Gas intends to propose a surcredit prior to the bank balance being over-collected by \$10 million”

5. Pursuant to these requirements, UNS Gas has twice requested credits to customers but has not sought a surcharge related to an under-collected bank balance. In Decision No. 75818 (November 22, 2016), the Commission approved a request by UNS Gas to return over-collected PGA costs to customers<sup>2</sup>. In October 2018, the Commission approved a request by UNS Gas to return over-collected PGA costs to customers in Decision No. 76916 (October 19, 2018).<sup>3</sup>

...

---

<sup>1</sup><https://docket.images.azcc.gov/0000136865.pdf?i=1651684996425> (at page 17 of PDF)

<sup>2</sup><https://docket.images.azcc.gov/0000174977.pdf?i=1650564241161> This credit of \$0.04/therm resulted in an average residential monthly bill decrease of \$2.88 over six winter months.

<sup>3</sup><https://docket.images.azcc.gov/0000192994.pdf?i=1650564047078> This credit of \$0.1023/therm resulted in an average residential monthly bill decrease of \$7.36 over six winter months.

## STAFF ANALYSIS AND RECOMMENDATIONS

6. As of March 31, 2022, the UNS Gas PGA bank balance was under-collected by \$7.5 million due to several significant factors. First, the price of wholesale natural gas from the Permian and San Juan Basins has been subject to extreme market volatility and UNS Gas is reliant on those markets to provide natural gas to its customers. For example, San Juan Basin natural gas prices have increased by an average of 218 percent over the past two years. Second, extreme weather events such as record-setting heat waves in August 2020, and June 2021, and winter storm Uri in Texas during February 2021, led to record high natural gas prices, adding additional unforeseen costs. As a result of these market factors, as well as the functionality of the UNS Gas PGA that limits monthly PGA rate adjustments, the PGA bank balance reached the current under-collected amount of \$7.5 million, and that under-collected amount will continue to increase based on forward market projections.

7. UNS Gas is proposing two PGA surcharge options that would allow UNS Gas recovery of the current under-collected PGA bank balance. Commission Utilities Division Staff (“Staff”) requested information from the Company on a third option. The table below shows the bill impacts of implementing a PGA surcharge under the three options. Residential customer usage of 43 therms per month was used to calculate the average Residential Bill Impact.

	Option 1	Option 2	Option 3
Proposed Surcharge Rate, \$/therm	\$0.06225	\$0.04150	\$0.03113
Average Residential Bill Impact, \$/Month*	\$2.71	\$1.81	\$1.35
Estimated Time Frame to Recover Under Collection	20 months	28 months	Not within UNS Gas’ 34 month forecast period

\*The Bill Impact includes applicable LFCR as a percentage of the bill.

8. The Company proposes to terminate the temporary PGA surcharge and notify Commission Staff when the PGA bank balance reaches zero.

9. The Company states that the proposed surcharge options will provide customers gradualism while ensuring timely recovery of the PGA bank balance. Forward natural gas prices remain high and may be prone to periods of unforeseen volatility. If no surcharge is approved, the Company estimates that the PGA under-collected bank balance would exceed \$18 million by February of 2023, resulting in significant financial risk to UNS Gas, and potentially leading to higher financing and credit exposure costs that would need to be included in future rate recovery. In support of its Application, UNS Gas provided a graph showing the San Juan Basin average monthly day-ahead natural gas prices from May 2020, through April 2022, as Exhibit A of the Application.

10. Staff recommends that the Commission approve the Option 2 surcharge of \$0.04150 per therm to recover the \$7.5 million in under-collections, in order to ensure the timely recovery of the PGA bank balance and to minimize the bill impact on residential customers.

11. It is reasonable to terminate the surcharge in the event that the under-collections in the Company's PGA bank balance reach zero. Such a termination would limit any over-collections that might occur if the surcharge stayed in place after the bank balance reached zero.

12. Staff recommends that the Commission approve a temporary PGA surcharge of \$0.04150 per therm from August 1, 2022, through November 30, 2024. Staff further recommends that UNS Gas be authorized to terminate the PGA surcharge in the event that the bank balance reaches zero at any time during the proposed time period, provided that UNS Gas notify the Commission within 15 days of its decision to terminate the PGA surcharge.

## CONCLUSIONS OF LAW

1. UNS Gas, Inc. is an Arizona public service corporation within the meaning of Article XV, Section 2 of the Arizona Constitution.

2. The Commission has jurisdiction over UNS Gas, Inc. and the subject matter of this application.



3. The Commission, having reviewed the application and Staff's memorandum, concludes that it is in the public interest to approve a temporary Purchased Gas Adjustor surcharge rate as discussed herein.

ORDER

IT IS THEREFORE ORDERED that a PGA surcharge rate of \$0.04150 per therm beginning August 1, 2022, through November 30, 2024, is hereby approved as discussed herein.

IT IS FURTHER ORDERED that UNS Gas, Inc. shall terminate the surcharge in the event that the PGA bank balance reaches zero at any time during the August 1, 2022, through November 30, 2024, time period, provided that UNS Gas, Inc. notifies the Commission within 15 days of its decision to terminate the surcharge.

IT IS FURTHER ORDERED that UNS Gas, Inc. shall file an updated Statement of Charges consistent with the Decision in this case within 15 days of the effective date of the Decision.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

  
CHAIRWOMAN MÁRQUEZ PETERSON

  
COMMISSIONER KENNEDY

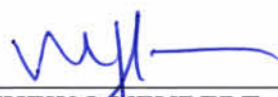
  
COMMISSIONER OLSON

  
COMMISSIONER TOVAR

  
COMMISSIONER O'CONNOR



IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 27 day of July, 2022.

  
MATTHEW J. NEUBERT  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

DISSENT: \_\_\_\_\_

EOA:LLM:ihf/MGC

1 UNS Gas, Inc.  
2 Docket No. G-04204A-22-0116

3 Bradley Carroll  
4 Tucson Electric Power Company  
5 88 East Broadway Boulevard  
6 Post Office Box 711  
7 Tucson, Arizona 85701  
8 [bcarroll@tep.com](mailto:bcarroll@tep.com)

**Consented to Service by Email**

9 Michael Patten  
10 Snell & Wilmer  
11 400 East Van Buren  
12 Phoenix, Arizona 85004  
13 [mpatten@swlaw.com](mailto:mpatten@swlaw.com)

**Consented to Service by Email**

14 Robin Mitchell  
15 Director/Chief, Legal Division  
16 Arizona Corporation Commission  
17 1200 West Washington Street  
18 Phoenix, Arizona 85007  
19 [legaldiv@azcc.gov](mailto:legaldiv@azcc.gov)  
20 [utildivservicebyemail@azcc.gov](mailto:utildivservicebyemail@azcc.gov)

**Consented to Service by Email**